LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

No. 1 Capitol District Bldg., 250 South Hotel St., 5th Flr., Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Tel.: (808) 586-2355
Fax: (808) 586-2377

THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE
Wednesday, March 25, 2009
4:00 p.m.
State Capitol, Conference Room 308

in consideration of
SB 1247 SD 2
RELATING TO THE ECONOMY

Chair Oshiro, Vice Chair Lee, and members of the House Committee on Finance.

The Department of Business, Economic Development, and Tourism (DBEDT) has concerns about SB 1247 SD 2, which requires the Department of Taxation (DOTax) and DBEDT to evaluate certain tax credits and tax exemptions and report results to the legislature.

In the original Senate bill, DOTax was solely responsible for the evaluations. SB 1247 SD 2 amended Sections 2 and 3 of the bill such that HRS 235 would assign DOTax and DBEDT joint responsibility for the evaluation of tax credits and exemptions. However, for DBEDT to perform such a role would require access to detailed tax data. DOTax has informed DBEDT that it would be unlawful for them to grant DBEDT access to the data necessary to be a partner in these evaluations. In light of this, it is unclear what level of responsibility DBEDT would be able to fulfill in producing the evaluations. Therefore, we respectfully request that DBEDT's required participation in evaluating such credits and exemptions be deleted from SB 1247 SD 2 or that the scope of DBEDT's role be limited to providing assistance.

Thank you for the opportunity to provide these comments.

Linda Lingle
GOVERNOR

KAREN SEDDON
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO

Statement of
Karen Seddon
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON FINANCE
March 25, 2009, 4:00 p.m.
Room 211, State Capitol

In consideration of
S.B. 1247, S.D. 2
RELATING TO THE ECONOMY.

The HHFDC supports the intent of S.B. 1247, S.D. 2, but requests that technical amendments be made to Section 3(d) of the S.D. 1 to fully effectuate its purpose. Specifically, the HHFDC respectfully requests that page 10, lines 1 and 2, be amended to read as follows:

"that the potential repeal of the tax credits in paragraphs (7) and (11) and the tax exemption in paragraph (9) shall not apply"

(amendments highlighted).

Thank you for the opportunity to testify.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

HOUSE COMMITTEE ON FINANCE

TESTIMONY REGARDING SB 1247 SD 2
RELATING TO THE ECONOMY

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: MARCH 25, 2009
TIME: 4PM
ROOM: 308

This bill repeals certain net income tax credits and exemptions from the General Excise Tax (GET), and it expands the current responsibilities for the Department of Taxation to evaluate certain of Hawaii's income tax credits and exemptions. The bill takes effect upon approval, with various tax credits and GET exemptions set to expire between December 31, 2011 and December 31, 2013.

The Department of Taxation (Department) has **strong concerns regarding the automatic repeal without legislative action**.

I. EVALUATING HAWAII'S TAX INCENTIVES; DUTY OF THE TAX REVIEW COMMISSION

Hawaii's tax laws contain special tax credits and exemptions that were enacted to promote various social or economic goals. In general, basic principles of public finance dictate that tax rates should be as uniform as possible to minimize the distortions that taxes create in the economy. It is therefore a good idea to evaluate the credits and exemptions from time to time to see whether they are working as they were meant to work. This bill provides such an evaluation.

The job of evaluating the special credits and exemptions is a big one. As currently constituted, this bill asks the Department to evaluate dozens of separate sections in Title 14, many of which contain more than one special tax provision. In the interest of minimizing the impact on already-stretched resources, and at a time when the State can least afford additional resource drains, the Department believes that the duty of studying tax credits and exemptions as contemplated by this measure is best left to the Tax Review Commission, which is constitutionally delegated this responsibility. The next Tax Review Commission will be seated on July 1, 2010.

II. AUTOMATIC REPEAL SHOULD BE HANDLED CAUTIOUSLY

The Department does not support the automatic repeal as provided in this measure. The automatic repeal in this bill during the current economic times could have a devastating impact on the economy. As a general consideration, automatic repeal of the magnitude contemplated by this legislation should be approached cautiously. This is a particularly serious responsibility, since these tax provisions will completely disappear without a sound basis for legislative intervention. The Department points out that all of these credits or exemptions were important at some point and served some purpose.

The current bill contains a number of items that are listed as exemptions from the GET that probably do not merit consideration. These exemptions are necessary for the GET to have a sensible structure that minimizes economic distortions – they are not exceptions from a uniform and consistently administered excise tax.

III. REVENUE ESTIMATE & METHODOLOGY

The estimated revenue gain from the potential credit and exemption eliminations is $391.1 million for FY 2011, $908.1 million for FY 2012, $1.05 billion for FY 2013, $1.31 billion for FY 2014, and $1.6 billion for FY 2015. In addition, the study required by the bill may result in an additional revenue gain of from $1 million to $3 million, because data and analysis developed for the study will help make the Department's compliance efforts more efficient.

Revenue gains from eliminating the income tax credits are taken from the Department's study of income tax credits for 2006. Revenue gains from eliminating the GET exemptions are taken from the Report of the 2005-2007 Tax Review Commission.

CHARMAINE TAVARES
MAYOR

DEIDRE M. TEGARDEN
OED COORDINATOR

BENITA BRAZIER
FILM COMMISSIONER

2200 Main Street Suite 305
Wailuku, Maui, Hawai'i 96793-2155
Telephone (808) 270-7415
Fax (808) 270-7995
e-mail:filmmaui@mauicounty.gov

Office of Economic Development
COUNTY OF MAUI – Kalana O Maui

March 23, 2009
Testimony from
Benita Brazier
Maui County Film Commissioner

House Committee on Finance

Wednesday, March 25, 2009
State Capitol, Conference Room 308

RE; SB1247 SD2

Dear Chair Oshiro, Vice-Chair Lee and members of the committee:

As the film commissioner from the County of Maui, I support the intent of this proposed Senate Draft as it relates to 235-17 motion picture, digital media and film production income tax credit, known as Act 88.

Since inception in July of 2006, the incentives provided through Act 88 have provided an estimated $322 million in direct expenditures to the State of Hawaii. These incentives have been responsible for providing both high paying jobs and creating workforce development opportunities.

The film office also supports the concept of conducting an economic impact study of the advantages of film credits, similar to the studies created for both the States of New Mexico and New York.

As was proven during the Great Depression, entertainment still thrives. Today, studios continue to spend millions of dollars to produce both film and television projects. These projects are created around the world despite the economic challenges of that are seen by other industries. The bottom line still drives these decisions so it is imperative that our tax credits continue to be marketed so we can continue to drive productions to the State of Hawaii.

The Hawaii film industry is constantly competing on a global scale. Many times because we are so far away from the U.S. mainland, we are incorrectly compared with both the counties of Australia and New Zealand who continue to have creative aggressive film tax incentives in place for production companies. We want to continue to be part of the solution to Hawaii's economic challenges.

I thank you for the opportunity to provide testimony.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, GENERAL EXCISE, PUBLIC SERVICE COMPANY, BANKS AND OTHER FINANCIAL INSTITUTIONS, LIQUOR, MISCELLANEOUS, Evaluate tax credits and exemptions

BILL NUMBER: SB 1247, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 235-20.5 to provide that the tax administration special fund shall also be: (1) used to administer the refundable credit for research activities under HRS section 235-110.91; and (2) compile usage and other relevant economic data to analyze the costs and benefits of the state's tax laws.

The department of taxation and department of business, economic development and tourism (DBEDT) shall evaluate the following tax credits or exemptions and submit an evaluation and progress report on the planned uses and actual expenditures associated with the reports to the 2010 legislature provided that if the department, with the assistance of DBEDT, does not submit a complete and accurate evaluation of the following tax credits and tax exemptions by no later than 20 days prior to the convening of the 2011 regular session, and the legislature fails to implement the department's recommendations pursuant to the evaluation, then the following tax credits and exemptions shall not be available to be claimed for taxable years beginning after December 31, 2010:

(1)	235-15	tax credits to promote the purchase of child passenger restraint systems
(2)	235-110.2	credit for school repair and maintenance
(3)	237-24	amounts not taxable, except for section 237-24(6) salaries or wages for services rendered
(4)	237-24.3	additional amounts not taxable
(5)	237-24.9	aircraft service and maintenance facility
(6)	237-29.53	exemption for contracting or services exported out of state
(7)	237-29.55	exemption for sale of tangible personal property for resale at wholesale
(8)	237-29.8	call centers; exemption; engaging in business; definitions
(9)	239-12	call centers; exemption; engaging in business; definitions

The department of taxation and DBEDT shall perform an evaluation of the following tax credits or exemptions and submit an evaluation and progress report on the planned uses and actual expenditures associated with the required reports to the 2011 legislature; provided that if the department, with the assistance of DBEDT, does not submit a complete and accurate evaluation of the following tax credits and exemptions by no later than 20 days prior to the convening of the 2012 regular session, and the legislature fails to implement the department's recommendations pursuant to the evaluation, then the following tax credits and exemptions shall not be available to be claimed for taxable years beginning after December 31, 2011:

(1)	235-110.6	fuel tax credit for commercial fishers
(2)	237-16.8	exemption of certain convention, conference, and trade show fees
(3)	237-23.5	related entities; a common paymaster; certain exempt transactions
(4)	237-24.5	additional exemptions
(5)	237-24.7	additional amounts not taxable
(6)	237-24.75	additional exemptions
(7)	237-25	exemptions of sales and gross proceeds of sales to federal government, and credit unions
(8)	237-28.1	exemption of certain shipbuilding and ship repair business
(9)	237-29.5	exemption for sales of tangible personal property shipped out of the state

The department of taxation and DBEDT shall perform an evaluation of the following tax credits or exemptions and submit an evaluation and progress report on the planned uses and actual expenditures associated with the required reports to the 2012 legislature; provided that if the department, with the assistance of DBEDT, does not submit a complete and accurate evaluation of the following tax credits and exemptions by no later than 20 days prior to the convening of the 2013 regular session, and the legislature fails to implement the department's recommendations pursuant to the evaluation, then the following tax credits and exemptions shall not be available to be claimed for taxable years beginning after December 31, 2012:

(1)	209E-10	state business tax credit
(2)	209E-11	state general excise exemptions
(3)	235-55.85	refundable food/excise tax credit
(4)	235-55.91	credit for employment of vocational rehabilitation referrals
(5)	235-71	tax on corporations; rates; credit of a shareholder of regulated investment company
(6)	237-26	exemption of certain scientific contracts with the United States
(7)	237-27	exemption of certain petroleum refiners
(8)	237-27.5	air pollution control facility
(9)	237-27.6	solid waste processing, disposal, and electric generating facility; certain amounts exempt
(10)	244D-4.3	exemption for sales of liquor out-of-state

The department of taxation and DBEDT shall perform an evaluation of the following tax credits or exemptions and submit an evaluation and a progress report on the planned uses and actual expenditures associated with the required reports to the 2013 legislature; provided that if the department, with the assistance of DBEDT, does not submit a complete and accurate evaluation of the following tax credits and exemptions by no later than 20 days prior to the convening of the 2014 regular session, and the legislature fails to implement the department's recommendations pursuant to the evaluation, then the following tax credits and exemptions shall not be available to be claimed for taxable years beginning after December 31, 2013: provided that the potential repeal of the tax credits in paragraphs (6) and (9) and the tax exemption in paragraph (7) shall not apply to those projects approved before January 1, 2014:

(1)	235-12.5	renewable energy technologies
(2)	235-55	tax credits for resident taxpayers
(3)	235-55.6	expenses for household and dependent care services necessary for gainful employment
(4)	235-55.7	tax credit for low-income household renters
(5)	235-110.3	ethanol facility tax credit

(6) 235-110.7 capital goods excise tax credit
(7) 235-110.8 low-income housing tax credit
(8) 237-23 exemptions, persons exempt, application for exemption, except for HRS section 237-23(a) (1) public service companies
(9) 237-29 exemptions for certified or approved housing projects
(10) 239-6.5 tax credit for lifeline telephone service subsidy
(11) 241-4.7 low-income housing; income tax credit

The reports submitted by the department of taxation and DBEDT shall provide data, economic analyses, and other information to enable the legislature to determine whether the tax credits and exemptions evaluated have: (1) achieved their intended objectives; (2) are consistent with policies; and (3) whether they should be continued, modified, or repealed. If the department of taxation recommends that the tax credit or exemption should be continued in its current form, it shall make appropriate recommendations, with assistance of the other state departments to improve the operation of the tax credit or exemption, including restrictions to be placed on the tax credit or exemption and whether to use a five-year or ten-year sunset provision. A recommendation from the department of taxation to continue the tax credit or exemption in its current form or recommendations to modify it shall be received before the tax credit or exemption is scheduled to sunset.

The reports submitted by the department of taxation may also include recommendations for the evaluation of other tax credits and exemptions in the future.

Permits the department of taxation to: (1) obtain an economic analysis from DBEDT; (2) establish a technical advisory group which may include the department of labor and industrial relations, department of agriculture, department of commerce and consumer affairs, department of transportation, department of human services, and DBEDT; to help identify and develop the data elements needed for the analyses; (3) collect, process, and analyze data from federal, state, and local government sources; and (4) post all usage data on the department's website with an explanation of how the department's methodology was used to calculate revenue losses and other fiscal impacts in order to address the lack of availability of pertinent tax data that is timely, comprehensive and accurate.

Requires the department of taxation to perform an evaluation of the following tax credits or exemptions and submit an evaluation to the legislature by no later than 20 days prior to the convening of the regular session as specified. These tax credits shall be reviewed in a uniform and systematic manner prior to their respective repeal dates to determine whether they have fulfilled the purposes for which they were enacted:

(1) 235-17 motion picture, digital media, and film production income tax credit, one year before the expiration date, as specified in that section
(2) 235-110.51 technology infrastructure renovation tax credit, one year before the expiration date, as specified in that section
(3) 235-110.9 high technology business investment tax credit, one year before the expiration date, as specified in that section
(4) 235-110.91 tax credit for research activities, one year before the expiration date, as specified in that section.

EFFECTIVE DATE: July 1, 2070

STAFF COMMENTS: This measure requires the department of taxation and DBEDT to examine and evaluate various tax credits and exemptions and provides for the repeal of them if the legislature does not implement the recommendations of the department. The measure is, no doubt, proposed to address concerns about the plethora of targeted business tax credits adopted in recent years. With everything from investments in high technology to ethanol producing plants to tax credits for hotel construction and home renovation and construction, taxpayers have been asked to pay for projects for which there are just promises that jobs will be created or new businesses will be attracted to provide those jobs. At the end of the day, while the beneficiaries laugh all the way to the bank with their profits, the taxpayer is left empty-handed. It should be remembered that giving tax breaks to one select group of taxpayers comes at the expense of all other taxpayers. As such, it is an insult to all other taxpayers that they are not deserving of such tax preferences. Rather than singling out a particular area for tax relief, concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses.

While there is no doubt that many of the income tax credits deserve to be repealed, some may result in some unexpected consequences. The repeal of the capital goods excise tax credit under HRS section 235-110.7 and the fuel tax credit for commercial fishers under HRS section 235-110.6 would result in higher operating costs for businesses that, no doubt, will be passed on to consumers in the form of higher prices of goods. However, in the case of the latter, the credit for fuel taxes paid by commercial fishing boats should be a charge against the transportation fund which benefits from those receipts, not the general fund as is currently the case. In the case of the capital goods excise tax credit, the credit was to offset the cost of the general excise tax imposed on the acquisition of capital goods which are key to the creation of new jobs. On the other hand, other provisions repealed, such as the child passenger restraint tax credit, are justified due to the state's mandatory seat belt law.

Care should also be exercised in repealing tax credits which are designed to offset the regressivity of other taxes like the general excise tax such as the renters tax credit, the dependent care credit, refundable food/excise tax credit for low-income wage earners and the low-income housing tax credit. While the tax credit for resident taxpayers (HRS 235-55) may appear questionable, it should be remembered that this tax credit recognizes that the taxpayer has paid taxes to another jurisdiction where the income was earned or realized. To completely repeal this credit would impose the state tax on income that was paid as taxes to another jurisdiction.

Those tax credits of questionable existence are those that were granted as incentives to encourage taxpayers to engage in certain types of behavior. Whether or not these tax credits should be continued is a matter of policy for the legislature to reaffirm. If these tax credits are deemed necessary to maintain a specific type of activity, lawmakers should justify the contribution to the economy the activity makes and acknowledge that such incentives come at the expense of all taxpayers. It should be remembered that good tax policy should not cause taxpayers to act in a certain way or alter their behavior that engenders inefficiencies.

This measure would also potentially repeal the corporate income tax as recommended by the most recent Tax Review Commission. To the extent that corporations in Hawaii would not be subject to corporate income taxation, they would still need the services provided by state government so those services must be paid for by someone else. Thus, the enactment of this measure may result in an increase in individual income tax rates or other taxes to make up the loss of revenues to pay for basic services provided by government unless a commensurate reduction in spending is also undertaken. The repeal of the corporate income tax would certainly make Hawaii stand out among all the other states which impose a net income tax on corporate profits. However, it should be remembered that not all businesses pay the net income tax under HRS 235 but some pay an in-lieu tax such as the banks which pay the financial institutions tax under HRS 241 and insurance companies which pay the insurance premiums tax under HRS 431 in-lieu of the net income and general excise tax.

While the continuance of some of the general excise tax exemptions is questionable, many of the exemptions exist because if the general excise tax were imposed on these entities or transactions, it would impose an undue burden or cause businesses to structure transactions in an inefficient manner. Other exemptions exist because imposing the general excise tax would mean double taxation of the same income. Those exemptions of questionable existence are those which were granted as incentives to encourage taxpayers to engage in certain types of behavior. Whether or not these exemptions should be continued is a matter of policy for the legislature to reaffirm. If these exemptions are deemed necessary to maintain a specific type of activity, lawmakers should justify the contribution to the economy the activity makes and acknowledge that such incentives come at the expense of all taxpayers. On the other hand, exemptions for purchases of food with foods stamps and qualified food items purchased with WIC coupons exist because of a federal mandate that such purchases are exempt from taxation. Other amounts specifically exempt from the general excise tax include liquor, cigarette, and transient accommodations tax amounts that would constitute a tax on a tax.

Among those general excise tax exemptions, which if repealed could create inefficiencies in the way business is conducted in Hawaii, are the exemptions for cooperative associations (HRS 237-23), cooperative housing corporations (-24), and reimbursement of nonprofit homeowner associations, advertising contributions to an unincorporated merchant's association (-24.3), and reimbursement of amounts distributed as employee wages and benefits (-24.7).

Then there is the matter of consistency in recognizing certain entities as being exempt because they provide a public purpose such as charitable, scientific, and educational organizations, nonprofit health care organizations, nonprofit shippers, nonprofit child placing organizations (HRS 237-23 and -24).

This then leaves those exemptions which beg justification based on policy established by the legislature. It is a matter for the legislature to justify repealing the exemption or continuing it. Included in this group are exemptions for fraternal benefit societies, business leagues, persons affected with Hansen's disease, cemetery associations (HRS 237-23), income of the blind deaf or disabled, (-24), prescription drugs and prosthetic devices (-24.3), stock exchanges (-24.5), scientific contracts with the U.S. (-26), and shipbuilding (-28.1).

While this measure proposes to implement a recommendation of not only the most recent Tax Review Commission, but previous commissions as well, that is to minimize or eliminate all tax credits, the elimination of some of these tax credits may cause more inequities and problems. While a closer examination of each of these tax credits, as proposed by this measure, should be performed by the department of taxation, it is questionable whether the department has sufficient staff and resources to undertake such a review in the relatively short time specified in this measure.

Digested 3/24/09

HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

AFSCME
LOCAL 152, AFL-CIO

RANDY PERREIRA
Executive Director
Tel: 808.543.0011
Fax: 808.528.0922

NORA A. NOMURA
Deputy Executive Director
Tel: 808.543.0003
Fax: 808.528.0922

DEREK M. MIZUNO
Deputy Executive Director
Tel: 808.543.0055
Fax: 808.523.6879

The Twenty-Fifth Legislature, State of Hawaii
House of Representatives
Committee on Finance

Testimony by
Hawaii Government Employees Association
March 25, 2009

S.B. 1247, S.D. 2 – RELATING
TO THE ECONOMY

The Hawaii Government Employees Association supports the purpose and intent of S.B. 1247, S.D. 2, which will institute an ongoing program evaluation of tax credits and tax exemptions that have no sunset dates. For existing tax credits and tax exemptions that have a sunset date, the objective is to compile accurate information on their usage and determine whether they are fulfilling the purposes for which they were adopted, as well as providing solid returns on public investment. The Department of Taxation, with assistance from the Department of Business Economic Development and Tourism, must compile the data so that the Legislature can properly evaluate tax credits and tax exemptions with consistent standards.

The Legislature requires such information to decide whether these particular credits and exemptions should be extended. As economic conditions change over time, the state will need different combinations of credits and exemptions to promote certain types of business/investment activities. Without a regular evaluation of tax credits and exemptions, the Legislature will not be able to make fiscally sound and effective spending decisions.

In these difficult economic times, Hawaii, like other states, needs to ensure that tax credits and exemptions are regularly evaluated and that ineffective or overly expensive tax breaks are repealed.

Thank you for the opportunity to testify in support of S.B. 1247, S.D. 2.

Respectfully submitted,

Nora A. Nomura
Deputy Executive Director

888 MILILANI STREET, SUITE 601 HONOLULU, HAWAII 96813-2991

SB 1247 SD2

RELATING TO THE ECONOMY

JOEL K. MATSUNAGA
CHIEF OPERATING OFFICER & EXECUTIVE VP
HAWAII BIOENERGY

MARCH 25, 2009

Chair Oshiro and Members of the House Finance Committee:

I am Joel Matsunaga, testifying on behalf of Hawaii BioEnergy on SB 1247 SD2, "Relating to the Economy."

SUMMARY

SB1247 SD2 calls for the department of taxation to evaluate certain tax credits and tax exemptions and calls for the department of taxation to report as well as give recommendations to the legislature prior to the mandate for those tax credits and tax exemptions to sunset. While Hawaii BioEnergy ("HBE") agrees that the review of these tax credits is important to help ensure the productive and efficient use of taxpayer dollars, the bill would allow the aforementioned provisions to sunset 1) should the department of taxation not submit a review and associated recommendation for the tax credits and tax exemptions or 2) should the department submit their recommendations and those recommendations not be implemented by the legislature. Included in the bill are programs that currently or could significantly benefit the residents of Hawaii. Should those programs not be reviewed and be allowed to expire, and should the department not take into account the role of credits and tax exemptions in attracting future investment, the benefits to Hawaii may never be realized.

HBE would like to emphasize the importance of two credits contained in SB1247 SD2 that are at risk. Specifically, HBE underscores the importance of the Ethanol Facility Tax Credit (Section 235-110.3) and the High Technology Business Investment Tax Credit (Section 235-110.9) to Hawaii's economy for the following reasons:

1. HBE is currently considering plans for sustainable ethanol production in Hawaii. While the Ethanol Facility Tax Credit is not currently being utilized, its existence is critical if Hawaii is to attract investment and develop a local ethanol industry. Should the department not submit a report or recommendation to the legislature 20 days prior to the regular 2012 session, and/or the legislature not adopt the recommendations, the Ethanol Facility Tax Credit would not be available for the following tax year. The elimination of the Ethanol Facility Tax Credit would either significantly delay or terminate any attempts by HBE to produce ethanol in Hawaii.
2. HBE is also moving forward with the development of other renewable energy projects in Hawaii that could contribute significantly toward addressing the State's energy needs and reducing the State's dependence on imported fuels. The repeal or expiration of the High Technology Business Investment Tax Credit could jeopardize or delay the projects and their associated environmental, economic, and social welfare benefits to Hawaii's residents.

RENEWABLE ENERGY PROJECTS IN HAWAII

Hawaii BioEnergy (HBE) is a local company with a mission to help Hawaii toward a sustainable energy future through the production of biofuels from locally grown feedstocks. Among its partners are three of the larger land owners in Hawaii who control in total over 430,000 acres of land. HBE and its partners would like to use significant portions of their land to address Hawaii's energy needs. Since its inception in 2006, HBE has been researching various biofuels alternatives to clearly evaluate each biofuel's relative suitability and sustainability based on Hawaii's natural resource base, climate, market and infrastructure.

One of those biofuel alternatives that HBE is pursuing is the production of jet fuel and other oil derivatives from micro-algae. Preparations have been underway for many months and facilities to conduct on-site research and development are expected to be in place before this legislative session is over. Algae not only offers Hawaii the benefit of developing a locally produced fuel source, but it also benefits the agriculture industry by providing proteins for animal feed, fertilizers and other locally produced products.

HBE is also currently considering plans to develop locally produced ethanol from sugar cane, sweet sorghum, or other crops that can be processed into ethanol. The production of ethanol in Hawaii will provide its residents with greater energy security, create a significant number of jobs, reduce the burning of fossil fuels, and retain dollars in the State's economy rather than sending them overseas.

REPEAL OF INCENTIVES WILL JEOPARDIZE RENEWABLE ENERGY PROJECTS

The elimination of the Ethanol Facility Tax Credit would likely cause HBE to abandon any consideration of local ethanol production projects. At a minimum, the elimination would significantly delay any plans to go forward with ethanol production in the State, as the production of ethanol in Hawaii would have to compete against ethanol produced and available on the world markets where land, labor and other costs - including adherence to environmental and other regulations - are lower. The current Ethanol Facility Tax Credit helps to offset those cost disparities to the extent that, under the right conditions, HBE would be willing to pursue producing ethanol locally. Further, the credit helps to offset a portion of the risk that first-movers must assume in the establishment of a new industry. Without that credit it would be very difficult, if not impossible, to justify investment in ethanol production facilities in Hawaii.

HBE is also developing other renewable energy sources which will help contribute to a more secure and sustainable energy future for Hawaii. The Company has expended a considerable amount of its investors' funds to date to conduct the research and development to be able to move projects that will benefit Hawaii forward. The availability of the High Technology Business Investment Tax Credit has allowed HBE to maximize our investors' funds with the State's incentives. Without the credit, it is possible that HBE's projects, as well as the benefits they will provide to Hawaii's residents, will be delayed. Based on an independent analysis commissioned by HBE, a large-scale ethanol facility could provide up to 1,400 new jobs and over $115 million in added value in the State. This type of economic stimulus is needed now more than ever given the economic downturn and the state budget deficit, but could be in jeopardy should the High Technology Business Investment Tax Credit be repealed or otherwise eliminated.

CONCLUSION

HBE is moving forward with projects that will help to secure Hawaii's energy future and generate economic benefits for the state. Hawaii residents will benefit from:

- Greater energy security from the displacement of fuel imports;
- A cleaner environment from the expansion of sustainable agriculture, the sequestration of CO_2 and harmful green house gas emissions, and reduction of fossil fuel consumption;
- A stronger economy through local fuel production, job creation, wealth, and tax generation.

However, the potential elimination of the Ethanol Facility Tax Credit and the High Technology Business Investment Tax Credit will jeopardize those benefits by either significantly delaying or terminating projects under consideration.

Based on the aforementioned, HBE respectfully requests your support in opposing the provision that allows for automatic termination of the Ethanol Facility Tax Credit and the High Technology Business Investment Tax Credit absent review and recommendations from the department of taxation and/or consensus by the legislature.

Thank you for the opportunity to testify.

March 23, 2009

Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee Vice Chair
House Committee on Finance
State Capitol
Honolulu, Hawaii 96813

Subject: S.B. No. 199, SD1 & S.B. 1247, SD2; Hearing on March 24, 2009, 4:00PM, **Testimony in Opposition**

Dear Chair Oshiro, Vice Chair Lee and Members of the House Committee on Finance:

EAH Housing is strongly opposed to S.B. 199, SD1 and S.B. 1247, SD2 and any other initiative that would repeal Low Income Housing Tax Credits (LIHTCs) as proposed in both bills and we are also opposed to the repeal of the General Excise Tax exemption for certified affordable housing projects as proposed in S.B. 1247.

EAH Housing is a non-profit public benefit corporation dedicated to developing, managing, promoting and preserving affordable rental housing. We depend on the LIHTC program to provide a large part of our equity financing in developing new rental housing and in acquiring and rehabilitating (preserving) older rental housing such as Kukui Gardens.

With the State now looking closely at ways to convert existing public housing into mixed income developments it is counterproductive at the same time to consider elimination of critical sources of financing to enable that transition. It is also counterproductive to consider eliminating the General Excise Tax exemption for certified affordable housing projects because this will add to the cost of development and preservation and on-going operations as well. Developing affordable housing is not easy! If it was we would have more of it. These bills will make the process harder than it already is and who suffers? The people of Hawaii suffer for the lack of an affordable place to call home.

Our State and our Counties should be creating ways to hasten the development of affordable rental housing and to reduce costs and create incentives to developers. S.B. 1247 and S.B. 199 do exactly the opposite.

Thank you for this opportunity to submit our thoughts.

Sincerely,

Kevin R. Carney

Kevin R. Carney, (PB)
Vice President, Hawaii

■ *Creating community by developing, managing and promoting quality affordable housing since 1968.*

Hawaii Regional Office
841 Bishop Street, Suite 2208
Honolulu, Hawaii 96813
808 / 523-8826 ■ Fax 808 / 523-8827

Main Office
2169 East Francisco Blvd., Suite B
San Rafael, California 94901-5531
415 / 258-1800 ■ Fax 415 / 453-4927

The Mutual Housing Association of Hawai'i, Inc.
MHAH

CENTRAL OFFICE

Pioneer Plaza
900 Fort Street Mall, Suite 1690
Honolulu, Hawai'i 96813

Tel: (808) 550-0804
Fax: (808) 550-0607
E-mail: mhah@mutual-housing.org

PROPERTIES

Lihu'e Court Townhomes
Kekaulike Courtyards
Palolo Homes

March 24, 2009

Honorable Marcus Oshiro, Chair
And Members of the Finance Committee
State House of Representatives
Hawai'i State Capitol
415 South Beretania Street; Room 306
Honolulu, Hawai'i 96813

Dear Chair Oshiro and Members:

Subject: Senate Bill No. 1247
Related to the Economy

The Mutual Housing Association of Hawai'i, Inc. ("Mutual Housing") strongly opposes the portion of Senate Bill No. 1247 which repeals the State of Hawaii Low-Income Housing Tax Credit ("State LIHTC") and the exemption of general excise tax ("GET exemption") for certified affordable housing projects as of December 31, 2013.

As Hawai'i faces an affordable housing crisis, we have seen our number of homeless growing, while even working families find it necessary to double-up with family or friends. New rental housing production has not kept pace with the loss over the years of affordable housing units through demolition, speculation, and conversion to for-sale units.

As an owner and developer of affordable rental housing, we can attest to the critical need for a permanent and dedicated source of funding to build new rental housing. The equity funding provided by the State's LIHTC program allows developers to leverage other funding programs such as tax-exempt bonds, the Rental Housing Trust Fund, the Dwelling Unit Revolving Fund, HOME program and conventional bank loans to make affordable projects financially feasible. Without the State LIHTC, future construction of affordable rental housing will be even more difficult, if not impossible, and Hawai'i will fall further behind in addressing its shortage of rental housing units for our families.

Developers and owners of affordable housing projects also rely on the GET exemption to make their projects financially feasible and to maintain the affordability of their rents for low-income families. The GET exemption for certified affordable housing projects has been in place to assist the economic feasibility in the development of affordable housing projects. It has proven to be a successful incentive for the development and preservation of affordable housing and should be allowed to continue.

Thank you for the opportunity to provide this testimony.

Sincerely,

David M. Nakamura
Executive Director

THE QUEEN'S MEDICAL CENTER

Representative Marcus Oshiro, Chair
House Committee on Finance

Wednesday, March 25, 2009; 4:00 PM (Agenda #3)
State Capitol, Conference Room 308

Re: SB 1247 SD2 – RELATING TO THE ECONOMY

Chair Oshiro, Vice Chair Lee, and Members of the Committee:

My name is Rick Keene, Executive Vice President and Chief Financial Officer of The Queen's Health Systems (Queen's), testifying on Senate Bill 1247 SD2, which requires the Department of Taxation, with the assistance of the Department of Business, Economic Development, and Tourism, to evaluate certain tax credits and tax exemptions and report to the Legislature; requires the Department of Taxation to give recommendations and for the Legislature to implement those recommendations prior to the mandate for those tax credits and tax exemptions to sunset. **Queen's is opposed to the repeal of the general excise tax exemption for nonprofit organizations and hospitals and notes that a review of the current general excise tax exemption is unnecessary.**

The current tax exemption does not serve to increase hospitals' profits; rather, it defrays significant losses and allows for continued support of community programs, non-core services, and charity care. According to the Healthcare Association of Hawaii, local hospitals incurred $141 million in uncollected payments in 2008 resulting from bad debt and charity care. Queen's contributes to the well-being of Hawaii by giving back to the community more than $40 million annually, including costs associated with health care services, education, and uncompensated care.

We would also note that credit rating agencies take into consideration legislation that will impact financial performance. This could lower the credit ratings of tax-exempt hospitals and lead to increased cost for debt financing. Such increased costs would make it more challenging for nonprofit hospitals to continue some of its community benefit programs, which could negatively impact the community's access to health care.

The new IRS form 990, Schedule H, will provide information to the Legislature and public at large regarding tax-exempt hospitals' delivery of charity care, community benefit, bad debt, and Medicare and Medicaid shortfall, all of which demonstrates the contributions that tax-exempt hospitals make to the community.

Queen's wholly appreciates the Legislature's budgetary challenges in light of the State's economic outlook. However, we respectfully request that SB 1247 SD2 be amended to eliminate reference to nonprofit organizations and hospitals.

Thank you for the opportunity to testify.

Hawai'i Association of REALTORS®
www.hawaiirealtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

March 24, 2009

The Honorable Marcus R. Oshiro, Chair
House Committee on Finance
State Capitol, Room 308
Honolulu, Hawaii 96813

RE: S.B. 1247, S.D.2, Relating to the Economy

HEARING DATE: Wednesday, March 25, 2009 at 4:00 p.m.

Aloha Chair Oshiro and Members of the Committee on Finance:

I am Craig Hirai, a member of the Subcommittee on Taxation and Finance of the Government Affairs Committee of the Hawai'i Association of REALTORS® ("HAR"), here to testify on behalf of the HAR and its 9,600 members in Hawai'i. HAR has the following **comments** with respect to Subsection (d) of Section 3 of S.B. 1247, S.D.2, Relating to the Economy, which repeals the Low Income Housing Tax Credit under HRS §235-110.8, the General Excise Tax ("GET") Exemption for Certified or Approved Housing Projects under HRS §237-29, and the Low Income Housing Tax Credit under HRS §241-4.7 after December 31, 2013.

Standing Committee Report No. 395 of the Senate Committee on Economic Development and Technology on S.B. 1247, S.D.1, states that the Committee had amended S.B. 1247 by:

> (3) Clarifying that potential repeal of the tax credits under sections 235-110.8 and 241-4.7, Hawaii Revised Statutes, and the tax exemption under section 237-29, Hawaii Revised Statutes, shall not apply to those projects approved before January 1, 2014; . . .

HAR therefore respectfully suggests that Subsection (d) of Section 3 of S.B. 1247, S.D.2, be amended as follows:

> (d) The department of taxation, with the assistance of the department of business, economic development, and tourism shall perform an evaluation of the following tax credits and tax exemptions and submit an evaluation to the legislature by no later than twenty days prior to the convening of the regular session of 2013; provided that if the department of taxation, with the assistance of the department of business, economic development, and tourism, does not submit a complete and accurate evaluation of the following tax credits by no later than twenty days prior to the convening of the regular session of 2014, thereby curtailing the legislature's ability to assess the tax credits and tax exemptions pursuant to the department of taxation's recommendations, then each of the applicable tax credits and tax exemptions shall not be available to be claimed for

Hawai'i Association of REALTORS®
www.hawaiirealtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

taxable years beginning after December 31, 2013; provided that the potential repeal of the tax credits in paragraphs (7~~6~~) and (11~~7~~) of this subsection and the tax exemption in paragraph (9) of this subsection shall not apply to those projects approved before January 1, 2014:

(1) Section 235-12.5, Hawaii Revised Statutes (renewable energy technologies; income tax credit);
(2) Section 235-55, Hawaii Revised Statutes (tax credits for resident taxpayers);
(3) Section 235-55.6, Hawaii Revised Statutes (expenses for household and dependent care services necessary for gainful employment);
(4) Section 235-55.7, Hawaii Revised Statutes (income tax credit for low-income household renters);
(5) Section 235-110.3, Hawaii Revised Statutes (ethanol facility tax credit);
(6) Section 235-110.7, Hawaii Revised Statutes (capital goods excise tax credit);
(7) Section 235-110.8, Hawaii Revised Statutes (low-income housing tax credit);
(8) Section 237-23, Hawaii Revised Statutes (general excise tax; exemptions, persons exempt, applications for exemption), except for section 237-23(a)(1), Hawaii Revised Statutes (public service companies);
(9) Section 237-29, Hawaii Revised Statutes (general excise tax; exemptions for certified or approved housing projects);
(10) Section 239-6.5, Hawaii Revised Statutes (public service company tax; tax credit for lifeline telephone service subsidy); and
(11) Section 241-4.7, Hawaii Revised Statutes (low-income housing; income tax credit).

HAR has historically supported mechanisms to help increase the supply of low and moderate income affordable housing such as the Rental Housing Trust Fund Program which can help integrate the use of mixed-income and mixed-use projects, special purpose revenue bonds, low-interest loans, block grants, low-income housing tax credit programs and deferred loan programs to provide rental housing opportunities.

Rental Housing Trust Fund projects qualify for and benefit from the GET exemption under HRS §237-29, and are often aided by equity financing generated from the Low Income Housing Tax Credit under HRS §235-110.8 and HRS §241-4.7. Repealing these programs will clearly reduce the amount of State funding available for desperately needed Rental Housing Trust Fund projects.

HAR believes that if Subsections (d)(7), (9) and (11) of Section 3 of S.B. 1247, S.D.2, are passed in their current form, without the amendment proposed above, the repeal of HRS §§ 235-110.8, 237-29 and 241-4.7 will have the following adverse consequences:

Hawai'i Association of REALTORS®
www.hawaiirealtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

1. With respect to existing projects, the repeal of the GET exemption under HRS §237-29 will reduce the gross rents available for operating costs and debt service of hundreds of State and County approved rental housing projects throughout the State by at least 4% (or 4.5% in the City and County of Honolulu). This will almost certainly adversely affect the projects' ability to fund their operating and maintenance reserves and may impair their ability to service or possibly breach a covenant and cause a default under their outstanding mortgage debt.

2. With respect to projects approved between the date of enactment of S.B. 1247, S.D.2, and December 31, 2013, the uncertainty of the continued existence of the GET exemption under HRS §237-29 will tend to reduce the amount of mortgage debt lenders will be willing to lend for these projects because their gross rents available for operating costs and debt service may decrease by 4% (or 4.5% in the City and County of Honolulu) on January 1, 2014. A logical consequence of such lender action would be a need for additional equity from sources such as the Rental Housing Trust Fund.

   The pricing of construction contracts for projects which are certified or approved under HRS §237-29 will also become more difficult and most likely more expensive as the December 31, 2013 repeal date grows closer because contractors may not be able to complete construction by that date.

3. With respect to existing projects, the repeal of the Low Income Housing Tax Credits under HRS §§ 235-110.8 and 241-4.7 will not allow: (a) current investors the use of the full amount of their credits if their 10-year recovery period under HRS §235-110.8(c) and IRC §42(b) extends beyond December 31, 2013; and (b) the State to recapture the credit under HRS §235-110.8(d)(4) and IRC §42(j) after December 31, 2013.

4. With respect to projects approved between the date of enactment of S.B. 1247, S.D.2, and December 31, 2013, the uncertainty of the continued existence of the Low Income Housing Tax Credits under HRS §§ 235-110.8 and 241-4.7 will undoubtedly reduce the amount investors will be willing to pay for the credits because they cannot be assured of the use of the credit through its entire 10-year recovery period. Again, a logical consequence of such investor action would be a need for additional equity from sources such as the Rental Housing Trust Fund.

HAR looks forward to working with our state lawmakers in building better communities by supporting quality growth, seeking sustainable economies and housing opportunities, embracing the cultural and environmental qualities we cherish, and protecting the rights of property owners.

Mahalo for the opportunity to testify.

oceanit

innovation through engineering & scientific excellence

March 24, 2009

SENATE BILL 1247 SD2: RELATING TO THE ECONOMY

DATE: March 25, 2009
4:00 p.m., Conference Room 308

TO: House Committee on Finance
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

FROM: John Kuriyama
General Manager
Oceanit

RE: Testimony in Support of SB1247 SD2

Aloha Chair, Vice Chair, and Members of the Committee:

Thank you for the opportunity to testify in support of SB1247 SD2. Oceanit has supported and continues to support efforts to review tax credits/exemptions. We believe that any such review must include a thorough cost benefit analysis **before** action is taken to repeal or extend such credits/exemptions. A complete and detailed evaluation of tax credits/exemptions will provide the Legislature with the data it needs to make an objective and informed decision and we believe that this measure will provide for such an evaluation.

Thank you for the opportunity to testify on this bill.

Respectfully submitted,

John Kuriyama

John Kuriyama
General Manager
954-4145
jkuriyama@oceanit.com

AMERICAN COUNCIL OF LIFE INSURERS
TESTIMONY IN OPPOSTION TO SB 1247, SD 2,
RELATING TO THE ECONOMY

March 25, 2009

Via e mail: fintestimony@capitol.hawaii.gov
Honorable Representative Marcus R. Oshiro, Chair
Committee on Finance
State House of Representatives
Hawaii State Capital, Conference Room 308
415 S. Beretania Street
Honolulu, Hawaii 96813

Re: SB 1247, SD 2,
Relating to the
Economy

Dear Chair Oshiro and Members of the Committee:

Thank you for the opportunity to testify in opposition to SB 1247, SD 2, relating to the Economy.

Our firm represents the American Council of Life Insurers ("ACLI"), a national trade association whose three hundred forty (340) member company's account for 94% of the life insurance premiums and 94% of the annuity considerations in the United States among legal reserve life insurance companies. ACLI member company assets account for 93% of legal reserve company total assets. Two hundred fifty-three (253) ACLI member companies currently do business in the State of Hawaii.

ACLI strongly objects to this Bill.

Section 3(a) of the bill (pages 3-4) directs the Department of Taxation ("DOTAX") and the Department of Business, Economic Development and Tourism ("DBEDT") to perform an evaluation of "the fiscal impacts and economic benefits" of the current exemptions from the general excise tax provided by law.

If the two departments fail to submit to the Legislature "a complete and accurate evaluation" of the tax exemption granted to insurance proceeds, as described below, within 20 days prior to the 2011 Legislative Session the exemption is automatically repealed for taxable years after December 31, 2010.

Sections 237-24(1) and 237-24(3), HRS, currently provide that life insurance death benefits, accidental death benefits, disability insurance payments and long term care insurance are exempt from the State's general excise tax. Under section 237-24(2), HRS, amounts received other than by reason of the death of the insured under life insurance, endowment or annuity contracts are also exempt from the general excise tax. These amounts include, for example, payment of the policy's "cash value" (investment portion) in the life insurance contract, sums paid as a policy loan and as an accelerated death benefit.

Taxing these proceeds is unprecedented. As a general rule, no state in the union taxes these payments; nor does the United States Government.

ACLI generally believes that as a matter of public policy, the State of Hawaii should encourage individuals to provide for their own financial security and the financial security of their families and others who are dependent upon them for their financial support and well being. Life and disability insurance and annuities which provide an income that you cannot outlive, provide individuals with this protection.

If a family is unable to provide for their own protection and support in the event of a loved one's death, sickness or injury, the State will need to spend its scarce resources for these purposes.

For the foregoing reasons, ACLI strongly opposes SB 1247, SD 2, and requests that as respects the taxation of insurance proceeds this Committee defer passage of this bill.

Again, thank you for the opportunity to testify in opposition to SB 1247, SD 2.

Sincerely yours,

CHAR HAMILTON
CAMPBELL & YOSHIDA
Attorneys At Law, A Law Corporation

By:______________________
OREN T. CHIKAMOTO
ochikamoto@chctlaw.com
Direct: 808.524.9630

ARCHINOETICS

700 Bishop Street, Suite 2000 Honolulu, HI 96813

SENATE BILL 1247 SD2: RELATING TO THE ECONOMY

DATE: March 25, 2009
4:00 p.m., Conference Room 308

TO: House Committee on Finance
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

FROM: Traci H. Downs
President & COO
Archinoetics, LLC

RE: Testimony in Support of SB1247 SD2

Aloha Chair, Vice Chair, and Members of the Committee:

Thank you for the opportunity to testify in support of SB1247 SD2. Archinoetics, LLC has supported and continues to support efforts to review tax credits/exemptions. We believe that any such review must include a thorough cost benefit analysis **before** action is taken to repeal or extend such credits/exemptions. A complete and detailed evaluation of tax credits/exemptions will provide the Legislature with the data it needs to make an objective and informed decision. This measure provides such a thorough evaluation of tax credits.

Archinoetics, LLC is a woman owned world class technology company focused on the research and development of human-centered technologies. Our current research and development projects include functional brain imaging systems, human fatigue and performance monitoring devices, intelligent algorithms based on genetic programming and biometric sensors, remote sensing, and specialized computing platforms. We were created in 2004 with the help of Act 221 which allowed my husband and I to make the leap of investing in our own company and have brought in over $10 Million to the State of Hawaii in the past 4 years. Today we employ 30 software and hardware engineers and scientists from varying backgrounds. A large number of our employees are kamaaina who left Hawaii and never dreamed that they would be able to work in their profession and raise their children back here at home. Act 221 has, and continues to be, vital to our company's success. Please help us survive through this economy and continue to expand the technology sector in Hawaii.

Thank you for the opportunity to testify on this bill.

Most Sincerely,

Traci H. Downs

Traci H. Downs

(T) 808.585.7439, (F) 888.279.0289
www.archinoetics.com

President & COO
Archinoetics, LLC

phone: 808.585.7439 fax: 808.585-7483
www.archinoetics.com

HI SciTech
HAWAII SCIENCE &
TECHNOLOGY COUNCIL

SENATE BILL 1247 SD2: RELATING TO THE ECONOMY

DATE: March 24, 2009
4:00pm, Conference Room 308

TO: House Committee on Finance
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

FROM: Lisa H. Gibson
President
Hawaii Science & Technology Council

RE: Testimony in Support of SB1247 SD2

Aloha Chair, Vice Chair, and Members of the Committee:

Thank you for the opportunity to testify in support of SB1247 SD2. The Hawaii Science & Technology Council (HISciTech) has supported and continues to support efforts to review tax credits/exemptions. HISciTech believes that any such review must include a thorough cost benefit analysis **before** action is taken to repeal or extend such credits/exemptions. A complete and detailed evaluation of tax credits/exemptions will provide the Legislature with the data it needs to make an objective and informed decision. This measure provides such a thorough evaluation of tax credits.

The Hawaii Science & Technology Council (HISciTech) is a 501(c)6 industry association with a 28-member board. HISciTech serves Hawaii companies engaged in ocean sciences, agricultural biotechnology, astronomy, defense aerospace, biotech/life sciences, information & communication technology, energy, environmental technologies, and creative media.

Thank you for the opportunity to testify on this bill.

Lisa H. Gibson
President

735 Bishop Street, Suite 401 Honolulu, Hawaii 96813
808.536.4670 *phone* | 808.536.4680 *fax* |

HAWAII CREDIT UNION LEAGUE
1654 South King Street
Honolulu, Hawaii 96826-2097
Web Site: www.hcul.org
Telephone: (808) 941-0556
Fax: 808) 945-0019
Email: info@hcul.org

Testimony to the House Committee on Finance
Wednesday, March 25, 2009 at 4:00 p.m.

Comments on SB1247 SD2, Relating to the Economy

To: The Honorable Marcus Oshiro, Chair
The Honorable Marilyn Lee, Vice-Chair
Members of the Committee on Finance

My name is Stefanie Sakamoto and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for over 90 Hawaii credit unions, representing approximately 810,000 credit union members across the state.

This bill requires the Department of Taxation, together with the Department of Business, Economic Development, and Tourism to evaluate certain tax credits and tax exemptions and report to the legislature. We agree with the need for an evaluation mechanism, especially in this time of economic turmoil and uncertainty.

Our only concern with the measure is the possibility of the unavailability of our tax exemption, should the Department of Taxation and the Department of Business, Economic Development, and Tourism fail to submit "a complete and accurate evaluation" of tax credits and tax exemptions. The language set forth in Section 3 (b) of the bill is unclear as to what is means for a report to be "complete and accurate". Aside from being instrumentalities of the federal government, recognized by being included in the same statutory section providing a general excise tax exemption for purchases of tangible personal property by the federal government, we seek to retain this exemption for the purchase of tangible personal property by credit unions for several reasons:

- Credit unions are not-for-profit, member-owned financial cooperatives with the sole purpose of serving member needs, particularly members of modest means.
- The cost of any tax paid by a credit union is a cost paid by that credit union's member-owners.
- Unlike for-profit financial institutions that are able to access capital from external sources (issuing common or preferred stock for instance), a credit union can add to (strengthen) its capital only by retention of net income.
- As a consequence of only deriving capital from it members, any impairment on a credit union's net income will reduce the ability of a credit union to grow capital needed for safe and sound operations, especially in this troubled economy.

Thank you for the opportunity to testify.

ARCHINOETICS

700 Bishop Street, Suite 2000 Honolulu, HI 96813

SENATE BILL 1247 SD2: RELATING TO THE ECONOMY

DATE: March 25, 2009
4:00 p.m., Conference Room 308

TO: House Committee on Finance
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

FROM: NAME
TITLE
COMPANY

RE: Testimony in Support of SB1247 SD2

Aloha Chair, Vice Chair, and Members of the Committee:

Thank you for the opportunity to testify in support of SB1247 SD2. Archinoetics has supported and continues to support efforts to review tax credits/exemptions. We believe that any such review must include a thorough cost benefit analysis before action is taken to repeal or extend such credits/exemptions. A complete and detailed evaluation of tax credits/exemptions will provide the Legislature with the data it needs to make an objective and informed decision. This measure provides such a thorough evaluation of tax credits.

Archinoetics began operations in 2005 and has grown to 30 Hawaii based employees with a payroll of over $2 million in 2008. We are a research company that develops intelligent human assistive technologies (i.e. we use sensors and computers to improve peoples' lives). Our subsidiary, Fatigue Science, is implementing an innovative fatigue risk management solution in Australia this month. This technology was an offshoot of a research program funded by the Hawaii Technology Development Venture 4 years ago. With a lot of work, and a little luck, we could grow to be a $50 million company in another 4 years. It would be a tragic irony for Hawaii to lose a cutting edge technology that originated here. However, passage of this bill or other changes that create business uncertainty could very well sink this new company.

Thank you for the opportunity to testify on this bill.

Sincerely,

Joe Cooper
CFO
Archinoetics
(808) 741-1684
Joe@archinoetics.com

(T) 808.585.7439, (F) 888.279.0289
www.archinoetics.com

NAIFA
HAWAII
Hawaii

National Association of Insurance and Financial Advisors --

516 Kawaihae Street, Suite E
Honolulu, HI 96825

House Committee on Finance
Representative Marcus Oshiro, Chair

Date of Hearing: Wednesday, March 25, 2009
Agenda #3 -- Time: 4:00 pm

RE: SB 1247, SD2 – Relating to the Economy

Chair Oshiro and members of the Committee, the National Association of Insurance and Financial Advisors (NAIFA) Hawaii is made up of insurance agents throughout Hawaii, who primarily sell life insurance, annuities, long term care and disability income policies.

We are strongly opposed to SB 1247, SD2, that will repeal Section 237-24.7(1), (2), and (3), HRS, under Section 3 of the bill, if the evaluation report from DoTax and DBEDT is NOT submitted to the Legislature in early January 2010.

Proceeds from a life insurance policy after the death of the insured, amounts received from endowments and annuity contracts will be repealed under Section 237-24.7(1) and (2), HRS. Also included in this repeal are disability income insurance proceeds and long term care insurance benefits under Section 237-24.7(3), HRS.

When consumers purchase these kinds of insurance policies, they were of the understanding that the proceeds would be tax free. Consumers pay premiums on these kinds of insurance policies for many years – many for decades -- and to change the law by repealing the exemptions for in-force policies is not fair.

Consumers buy these kind of insurance policies to take responsibility for their lives, their health and care. These kinds of insurance policies keep our citizens out of the welfare entitlement programs.

We ask that you continue to allow the exemptions for these insurance policies.

Mahalo for allowing us to share our views.

Cynthia Hayakawa, Executive Director

HANO

Hawai`i Alliance of Nonprofit Organizations

March 24, 2009

Chair Marcus Oshiro
House Committee on Finance
Hawaii State House of Representatives
State Capitol, Room 308
Honolulu, HI 96813

RE: SB 1247, SD 2, Relating to Taxation

Dear Chair Oshiro and members of the House Finance Committee:

The Hawai`i Alliance of Nonprofit Organizations (HANO) appreciates the need to better understand the financial impact that tax credits and exemptions have on the state budget. We are confident that upon further exploration of HRS 237-23, the Department of Taxation, along with the Department of Business Economic Development and Tourism will determine in 2014 that the tax exemption to charitable organizations is well justified.

Nonprofits are tax-exempt because they provide a social good that government would otherwise have to furnish. Nonprofits are able to provide these services more economically and efficiently than the state, but taxing them would add tremendously to their costs and hinder their ability to serve the community.

This bill also proposes that a technical advisory group be formed made up of only state departments to study the exemptions and credits and to make recommendations to the Department of Taxation and Department of Business Economic Development and Tourism. **We strongly suggest that community-based groups like HANO be included in the technical advisory group to provide relevant and critical data on the nonprofit sector that will better inform the decision-making process.**

HANO unites and strengthens the nonprofit sector as a collective force to improve the quality of Hawai`i. It works in the areas of leadership and convenings, advocacy and public policy, research and information, communications, professional development and products and capacity building services for its members.

We understand the intent of SB 1247, SD 2, but would be further comforted if reference to HRS 237-23 was removed entirely from the bill. Thank you for the opportunity to provide testimony.

Lisa Maruyama
President and CEO

One South King Building
33 South King St., Suite 501 • Honolulu, HI 96813
info@hano-hawaii.org • hano-hawaii.org
(808) 529-0466 • Fax (808) 529-0477

KAISER PERMANENTE

Government Relations

Testimony of
Frank P. Richardson
Vice President and Regional Counsel

Before:
House Committee on Finance
The Honorable Marcus R. Oshiro, Chair
The Honorable Marilyn B. Lee, Vice Chair

March 25, 2009
4:00 pm
Conference Room 308
AGENDA #3

SB 1247 SD2 RELATING TO THE ECONOMY

Chair Oshiro, and committee members, thank you for this opportunity to provide testimony on SB 1247 SD2 which would require a review of tax credits and exemptions and automatically repeal certain tax credits and exemptions.

Kaiser Permanente Hawaii opposes this bill.

The cost of delivering health care in Hawaii and across the nation continues to mount. To the extent this measure would repeal excise tax exemptions applicable to Kaiser, this measure will only add to that cost. The burden of an excise tax such as this one would be passed on to health plan purchasers and consumers, driving up the overall cost of healthcare to those purchasers and to the state.

Additionally, as a 501(c)(3) federally tax exempt, charitable organization, Kaiser provides approximately $19 million in free care, subsidized care, grants, health education, and programs for safety net organizations within the State of Hawaii. Removing the exemption from the excise tax provided by section 237-23 and 237-24.3 HRS would be an unfortunate precedent setting erosion of Kaiser's tax exempt status, inconsistent with its public benefit social mission.

In short, repeal of Kaiser's general excise and use tax exemptions would be bad for the business community, bad for the public, and bad for the cost of healthcare in the State of Hawaii.

Thank you for your consideration.

711 Kapiolani Blvd
Honolulu, Hawaii 96813
Telephone: 808-432-5408
Facsimile: 808-432-5906
Mobile: 808-295-5089
E-mail: frank.p.richardson@kp.org

March 24, 2009

TO: (808) 586-6001
Testimony for Hearing before the House Committee on Finance
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair
Wednesday, March 25, 2009, 4:00 p.m.
State Capitol, Conference Room 308

RE: Testimony in Support of SB1247 SD2

Aloha Chair, Vice Chair, and Members of the Committee:

Thank you for the opportunity to testify in support of SB1247 SD2. I have supported and continue to support efforts to review tax credits/exemptions. I believe that any such review must include a thorough cost benefit analysis **before** action is taken to repeal or extend such credits/exemptions. A complete and detailed evaluation of tax credits/exemptions will provide the Legislature with the data it needs to make an objective and informed decision. This measure provides such a thorough evaluation of tax credits.

Thank you for the opportunity to testify on this bill.

Very Truly Yours,

Alfred B. Fernandes, CPA